

STATE METHODOLOGY FOR COST EFFECTIVENESS OF HEALTH PLANS

Missouri's formula for determining cost effectiveness of insurance plans under the Health Insurance Premium Payment Program (HIPP) program is modeled after the Secretary's methodology in the State Medicaid Manual, Section 3910. The formula is:

$$\text{Savings from the plan} = \text{GHPC} - \text{CSM}$$

DEFINITIONS:

CSM - Computer Summed Medicaid Costs: Average Medicaid expenditures (only for the services covered under the insurance plan) from the previous fiscal year, for persons with like demographic data and no third party resources, excluding Medicare.

Determine average Medicaid cost for each Medicaid-eligible person in the household by the following demographic data:

1. Age - As Tabled
2. Sex - Male/Female
3. Types of Assistance - ME Code
4. Geographic Location - County Code
5. Category of Service - As Tabled

GHPC - Group Health Plan Costs: Calculate total costs to the State under the group health plan. GHPC consists of the following formula:

$$[(\text{CSM} * \text{K1}) * \text{K2}] - \text{EP} - \text{AC} = \text{GHPC}$$

K1: A constant factor to adjust the Medicaid average covered expense amount for the higher prices employer plans typically pay. The national average factor is supplied and updated by HCFA periodically.

K2: A constant factor which represents the state-specific average employer health insurance payment rate (accounts for coinsurance amounts.) This factor equals 1.0.

EP: Annual premium amount + annual policy deductibles

AC: Administrative Cost - \$50 annually per recipient

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If the formula indicates that the policy is not cost effective based on average Medicaid expenditures for similar households, the specific health-related circumstances of the household are examined. Health insurance will be purchased if the household's anticipated medical expenditures are greater than the average and would cause the policy to be cost-effective.

TABLE OF AGE GROUPS

#1	0
#2	1 - 4
#3	5 - 14
#4	15 - 19
#5	20 - 45
#6	46 - 65
#7	66 - 79
#8	80+

TABLE OF CATEGORY OF SERVICES

<input type="checkbox"/> INPAT HOSP	<input type="checkbox"/> LAB & RADIOLOGY	<input type="checkbox"/> MEDICARE SUPPL.
<input type="checkbox"/> OUTPAT HOSP	<input type="checkbox"/> AMBULANCE	<input type="checkbox"/> NURSING HOME
<input type="checkbox"/> PHYSICIAN	<input type="checkbox"/> EMERGENCY ROOM	<input type="checkbox"/> HOSPICE
<input type="checkbox"/> CLINIC	<input type="checkbox"/> OPTICAL	<input type="checkbox"/> ICF/MR SERVICE
<input type="checkbox"/> DRUGS	<input type="checkbox"/> DME	<input type="checkbox"/> SKILLED NURSE
<input type="checkbox"/> DENTAL	<input type="checkbox"/> HOME HEALTH	<input type="checkbox"/> PSYCHIATRIC/PSYCHOLOGY

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EXAMPLE (FOR INTERNAL USE ONLY)

--- Smith, aged 30, AFDC, St. Louis County
 , aged 10, AFDC, St. Louis County
 Premium Amount: \$900.00

1) Computer Summed Medicaid Costs:

30 year old female, AFDC, St. Louis County	\$1,600.00
10 year old female, AFDC, St. Louis County	1,000.00

	\$2,600.00
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2) Coinsurance Amounts:

- a. Adjust the Medicaid average covered expense amount for the higher prices employer plans pay. The national factor of 1.6 is used.

Computer Summed Medicaid Costs	\$2,600.00
National Average Factor	x 1.60

Health Plan Costs	\$4,160.00
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- b. The Health Plan Cost is multiplied by an average health insurance payment rate to obtain the employer recognized covered expense amount. This is the amount employer plans pay after application of coinsurance and other cost sharing. The national average is used. (For this example assume the number is 75 percent.)

Health Plan Costs	\$4,160.00
Average Employer Payment Rate	x .75

Net Group Health Plan Costs	\$3,120.00
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- c. Health Plan Costs \$4,160.00
 Net Group Health Plan Costs 3,120.00

Coininsurance Amount	\$1,040.00
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- 3) Premium amount (annual) \$ 900.00
 Deductible (annual) 250.00

	\$1,150.00
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- 4) Administrative Costs \$ 50.00
 x 2

 \$ 100.00
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FORMULA

Savings = CSM - (COI + EP + AC)
 (\$1,040.00 + \$1,150.00 + \$100.00)

\$310.00 = \$2,600.00 - \$2,290.00